



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAC 730.31/2000-08

31 March 2000  
00-PAC-028(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT: Audit Guidance on Interim Rule – Applicability, Thresholds and Waiver of Cost Accounting Standards Coverage**

**We are enclosing a training package which includes our guidance on the subject interim rule. Each Regional Audit Manager should ensure that his or her cognizant FAOs present this training to all auditors as soon as possible, but no later than 30 April 2000. To be most effective, the entire training package should be provided to the auditors *after* delivery.**

**SUMMARY**

Effective 2 April 2000, there will be significant changes to Cost Accounting Standards (CAS) applicability, thresholds, and waivers of CAS coverage. The changes are included in an Interim Rule issued by the CAS Board on 7 February 2000 (65 FR 5990).

The following are the main features of the rule:

- Increases the threshold for full CAS coverage and Disclosure Statements from the current \$25 million to \$50 million,
- Adds an exemption from CAS for contracts less than \$7.5 million provided the business unit is not currently performing any CAS-covered contracts greater than \$7.5 million,
- Replaces the current exemption at 48 CFR 9903.201-1(b)(15) (firm-fixed price (FFP) contracts awarded without any cost data) with an exemption for FFP contracts awarded based on adequate price competition without cost or pricing data, and
- Delegates CAS waiver authority to heads of executive agencies under certain circumstances.

**BACKGROUND**

On 7 February 2000, the Cost Accounting Standards (CAS) Board issued an Interim Rule on applicability, thresholds and waivers of CAS coverage. This rule implements provisions included in the National Defense Authorization Act for FY 2000 (P.L. 106-65) and is effective 2 April 2000.

**SUBJECT: Audit Guidance on Interim Rule – Applicability, Thresholds and Waiver of  
Cost Accounting Standards Coverage**

We previously announced these changes in a Memorandum For Regional Directors, subject: Statutory Changes Affecting Cost Accounting Standards (99-PAC-113(R), 26 October 1999), which is superceded.

**GUIDANCE**

Details of the changes and our implementing guidance are included as part of a training package which is enclosed with this memorandum. The training package includes:

- A PowerPoint presentation with notes for presenters (Enclosure 1)
- Answers to frequently asked questions (Enclosure 2)

Two of the most significant changes require the auditor to determine whether a contractor is currently performing a CAS-covered contract of \$7.5 million or greater and whether the contractor received net CAS-covered awards of \$50 million or greater in the preceding cost accounting period. If the FAO is unsure whether these new rules affect the CAS coverage of specific contractors under its cognizance, we suggest that the FAO query the contractor(s) about this. For your convenience, we have included a sample form letter that you may use for this purpose (Enclosure 3). Use of the letter is entirely optional.

It should be noted that this is an interim rule, not a final rule, but will take effect on 2 April 2000. It is possible that the final rule, when issued, may be slightly different once public comments are reviewed. We will issue additional guidance at that time, if needed.

**CONCLUDING REMARKS**

Field audit office personnel should direct questions regarding this memorandum to their regional offices. Regional offices should direct their questions to Susan Barajas, Program Manager, Accounting and Cost Principles Division, at (703) 767-3252 or DCAA-PAC@dcaa.mil.

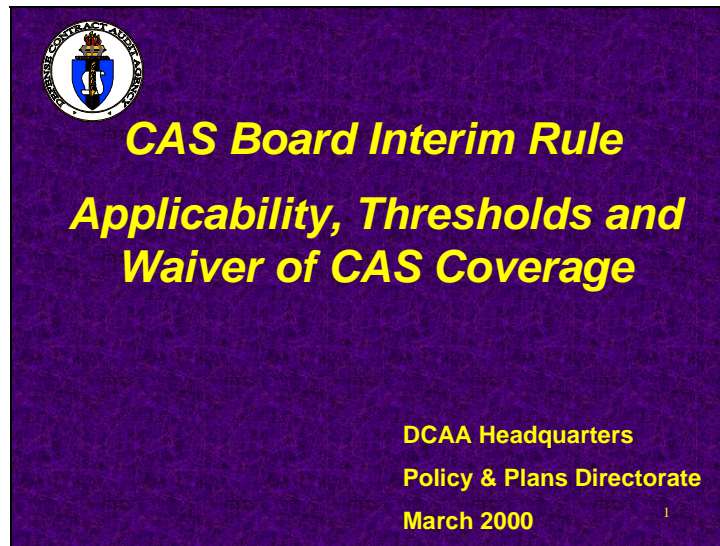
/s/ Robert DiMucci for

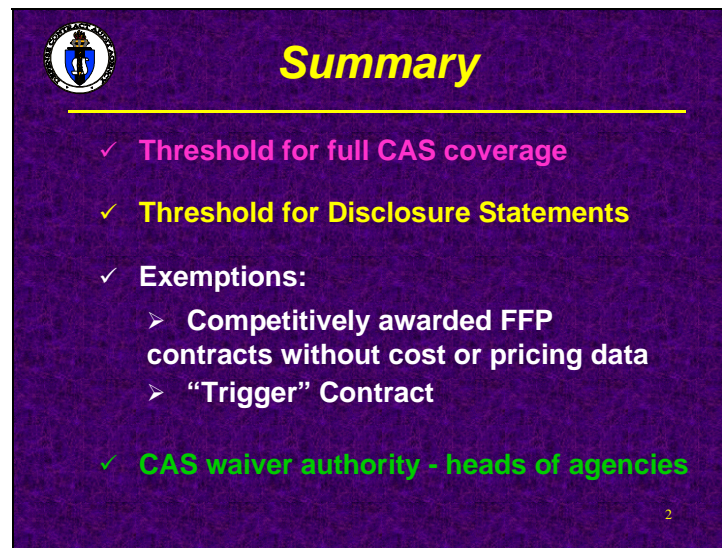
Lawrence P. Uhlfelder  
Assistant Director  
Policy and Plans

**Enclosures - 3**

1. PowerPoint presentation (training material)
2. Questions and answers (training material)
3. Sample letter to contractors

**DISTRIBUTION: S**





This is a summary of the interim rule. We will cover each of these areas in detail.

**Threshold for full CAS coverage.** The threshold for full CAS coverage is increased from \$25 million to \$50 million.

**Threshold for Disclosure Statements.** The threshold for when a disclosure statement is required is increased from \$25 million to \$50 million.

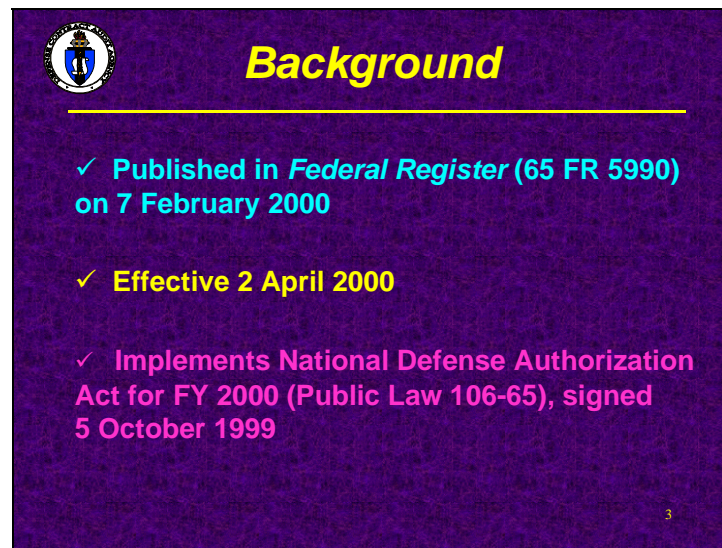
**Exemptions:**

**Competitively awarded FFP contracts without cost or pricing data.**

**“Trigger” Contract.**

These are both new exemptions.


**CAS waiver authority - heads of agencies.** The waiver authority is now delegated to heads of executive agencies under certain circumstances.



**Published in *Federal Register* (65 FR 5990) on 7 February 2000.** This is the date the interim rule was published. There is a 60-day public comment period. Comments must be received by the CAS Board by 7 April 2000. After the CAS Board reviews the public comments, a final rule will be issued.

**Effective 2 April 2000.** The rule was issued as an interim rule rather than a proposed rule. Therefore, the rule has a firm effective date, which is 2 April 2000. We will discuss how the rule is implemented later in the training session.

**Implements National Defense Authorization Act for FY 2000 (Public Law 106-65), signed 5 October 1999.** The interim rule implements provisions included in the FY 2000 DoD Authorization legislation. The legislation allowed the CAS Board 180 days to implement the changes. The 2 April 2000 effective date of the interim rule is 180 days from the 5 October 1999 enactment of the legislation.



### **Threshold - Full CAS Coverage**

- ✓ **Increases from \$25 million to \$50 million**
- ✓ **Trigger contract (\$1 million) for full coverage is eliminated**
- ✓ **Modified coverage if < \$50 million in CAS-covered awards in previous year**


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**Increases from \$25 million to \$50 million.** (9903.201-2(a)). Prior to the interim rule, a business unit was subject to full CAS coverage if it received either:  
a single CAS-covered contract award of \$25 million or more; or  
\$25 million or more in net CAS-covered awards during its preceding cost accounting period, of which at least one award exceeded \$1 million.

The interim rule changes this threshold from \$25 million to \$50 million. After 2 April 2000, a single CAS-covered award of \$50 million or more, or \$50 million or more in net CAS-covered awards during the preceding accounting period will mean that new CAS awards are subject to full CAS coverage.

**Trigger contract (\$1 million) for full coverage is eliminated.** The requirement that at least one award in the preceding year be at least \$1 million has been eliminated.

**Modified coverage if < \$50 million in CAS-covered awards in previous year.** (9903.201-2(b)). If net CAS-covered awards in the preceding year are less than \$50 million, new CAS-covered awards are only subject to modified coverage.



### **Threshold - Disclosure Statements**

- ✓ **Increases from \$25 million to \$50 million**
- ✓ **No change for segments with minimal CAS work. No Disclosure Statement if CAS-covered awards are:**
  - **Less than 30 percent of total segment sales**
  - AND**
  - **Less than \$10 million**

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The legislation (upon which the interim rule was based) was silent regarding the disclosure statement; however, the CAS Board increased the threshold for the disclosure statement to be consistent with the new threshold for full CAS coverage.

**Increases from \$25 million to \$50 million.** (9903-202-1). Prior to the interim rule, a business unit was required to submit a disclosure statement if it received a single CAS-covered contract award of \$25 million or more; or the total company (all the segments) received \$25 million or more in net CAS-covered awards during its preceding cost accounting period, of which at least one award exceeded \$1 million.

The interim rule changes this threshold from \$25 million to \$50 million. After 2 April 2000, a single CAS-covered award of \$50 million or more, or a total of \$50 million or more in net CAS-covered awards during the preceding accounting period for all company segments, will mean that new CAS awards are subject to full CAS coverage.

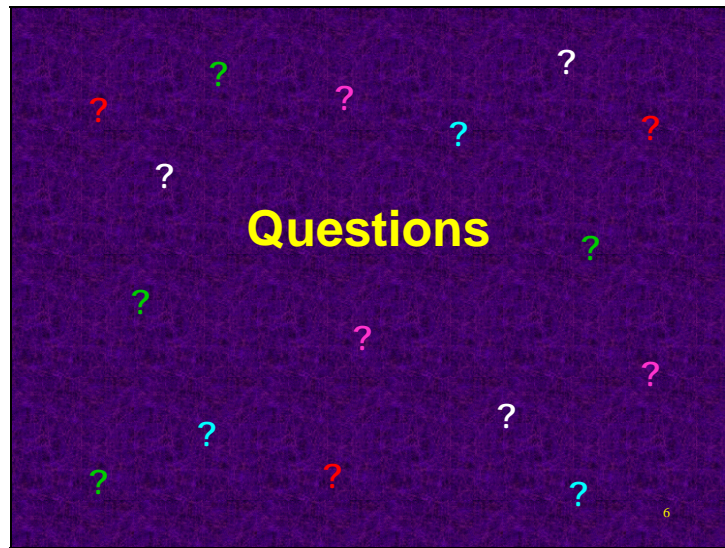
**No change for segments with minimal CAS work. No Disclosure Statement if CAS-covered awards are:**

**Less than 30 percent of total segment sales; AND**

**Less than \$10 million.**

(9903.202-1(c)). Prior to the interim rule, a segment was not required to submit a disclosure statement if it meets this criteria. The interim rule does not change this criteria.

Slide 6




[The next slide begins a series of questions.

The slides show only the questions. For the instructor, the answers to the questions are in the “notes” section of the slide.

There is a handout at the conclusion of the training session which has both the questions and answers summarized on one sheet. DO NOT hand it out until the end of the training session; however, tell the students at this point that they will be receiving a handout with the answers.]





### Question #1

**Question:**

Contractor A had \$64 million in CAS-covered awards in FY 1999. None of these awards was over \$1 million.

In FY 2000, are CAS-covered awards subject to full or modified CAS coverage?

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**Question:**

**Contractor A had \$64 million in CAS-covered awards in FY 1999. None of these awards was over \$1 million. In FY 2000, are CAS-covered awards subject to full or modified CAS coverage?**

**Answer:**

New CAS-covered awards are subject to full coverage since the contractor received over \$50 million in CAS-covered awards in the preceding cost accounting period.

It does not matter whether any of the \$50 million in awards exceeded \$1 million. This former requirement for full coverage is eliminated in the interim rule.



## Question #2

**Question:**

Contractor B had \$52 million in CAS-covered awards in FY 1999. In FY 2000, the contractor received \$48 million in CAS-covered awards.

Are new CAS-covered awards in FY 2001 subject to full or modified CAS coverage?

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**Question:**

**Contractor B has \$52 million in CAS-covered awards in FY 1999. In FY 2000, the contractor received \$48 million in CAS-covered awards. Are new CAS awards in FY 2001 subject to full or modified CAS coverage?**

**Answer:**

New CAS awards in FY 2001 would be subject to modified CAS coverage rather than full CAS coverage.

The requirement for full coverage is net CAS-covered awards of \$50 million or greater in the preceding cost accounting period. For the year preceding FY 2001, the contractor did not receive CAS-covered awards more than \$50 million. Therefore, new CAS awards are subject to modified rather than full coverage.



### Question #3

**Question:**

After contract award, how does an auditor determine whether a contract is CAS-covered and the type of coverage (full or modified)?

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**Question:**

**After contract award, how does an auditor determine whether a contract is CAS-covered and the type of coverage (full or modified)?**


**Answer:**

The auditor must determine if the CAS clause is in the contract, and which CAS clause is included.

If there is no CAS clause, it is generally not CAS-covered. However, if the clause should have been included and for some reason was not (i.e., CAS should apply but for some reason the clause was not included), CAS would still apply. In this case, it doesn't matter that the clause is not in the contract. This is commonly called the "Christian doctrine."

FAR 52.230-2, Cost Accounting Standards, is the clause for full CAS coverage.

FAR 52.230-3, Disclosure and Consistency of Cost Accounting Practices, is the clause for modified CAS coverage.



## Exemptions

- ✓ FFP contracts awarded based on **adequate price competition** without cost or pricing data
  - Replaces current 9903.201-1(b)(15) exemption (FFP contracts awarded without **any** cost data)
- ✓ “Trigger” contract (new exemption at 9903.201-1(b)(7))

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There are 2 new exemptions in the interim rule.

**FFP contracts awarded based on adequate price competition without cost or pricing data**  
**Replaces current 9903.201-1(b)(15) exemption (FFP contracts awarded without any cost data)**

Prior to the interim rule, the exemption at 9903.201-1(b)(15) was for: “FFP contracts and subcontracts awarded without submission of *any* cost data.”

The revised exemption is for: “FFP contracts or subcontracts awarded on the basis of *adequate price competition without submission of cost or pricing data*.”

Prior to the interim rule, the only way to qualify for the exemption was if *no cost data of any kind* was submitted. The revised (b)(15) exemption changes this. The revised exemption requires *adequate price competition* to exist in conjunction with the submission of *no cost or pricing data*.

It may appear that when TINA (Truth In Negotiations Act) doesn’t apply, then CAS doesn’t apply. This is not correct. Two conditions must exist for a contract to be exempt from CAS under (b)(15):


There must be adequate price competition, and  
No cost or pricing data must be submitted.

Prior to the interim rule, if no cost data was submitted, it was exempt from CAS.

Under the interim rule, even if TINA is waived and no cost data is submitted, the contract is still subject to CAS if it was not awarded on the basis of adequate price competition.

**“Trigger” contract (new exemption at 9903.201-1(b)(7)).**

This new exemption is discussed on the next slide.



 **Trigger Contract**

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✓ **Contracts exempt from CAS:**

- **Contract value < \$7.5 million**

**AND**

- **Contractor not performing a CAS-covered contract of \$7.5 million or greater**

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A new exemption is added at 9903.201-1(b)(7).

**Contracts exempt from CAS:**


**Contract value < \$7.5 million AND contractor not performing a CAS-covered contract of \$7.5 million or greater.**

If the new award is less than \$7.5 million and the contractor is not currently performing a CAS-covered contract of \$7.5 million or greater, the new awards that would otherwise be subject to CAS are exempt from CAS.

For example, assume a contractor is not currently performing a CAS-covered contract of \$7.5 million or more. The contractor receives a new award of \$5 million. It does not meet any of the other exemption criteria in 9903.201-1(b). Since the new award is less than \$7.5 million and the contractor is not performing a CAS-covered contract of \$7.5 million or more, the new \$5 million award is exempt from CAS.

However, if the contractor *had* been performing a contract of \$7.5 or more at the time of award of the \$5 million contract, the new \$5 million contract would be subject to CAS.

It is called a “trigger” contract because once a contractor receives an award of \$7.5 million or more, or a contractor is performing a CAS-covered contract of \$7.5 million or more, CAS coverage is “triggered” and further awards are subject to CAS (if no other exemption applies).



### **Trigger Contract**

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✓ Assuming no other exemptions are met, to determine if a new contract is subject to CAS, ask:

**Q. Is the new contract  $\geq$  \$7.5 million?**

- ★ If yes, contract is CAS-covered.
- ★ If no, go to next question:


**Q. Is the contractor currently performing a CAS-covered contract  $\geq$  \$7.5 million?**

- ★ If yes, contract is CAS-covered.
- ★ If answers to both questions are no, contract is not CAS-covered.

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In order to determine if a new contract is subject to CAS, one must ask these questions. Depending on the answers, the contract is or is not subject to CAS.

This assumes that none of the other exemptions under 9903.201-1(b) apply.



## **Trigger Contract**

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**Question:**

What does “currently performing” mean?

**Answer:**

Not yet physically complete

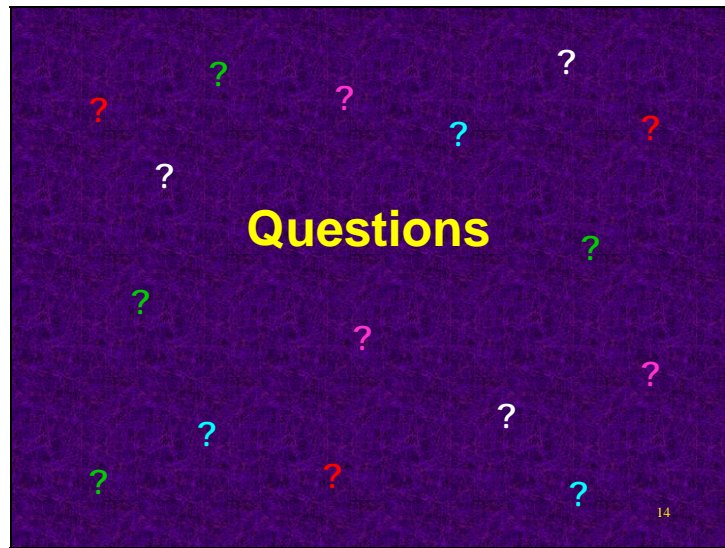
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**Question:** What does “currently performing” mean?


**Answer:** Not yet physically complete.

The new exemption at 9903.201-1(b)(7) uses the language “currently performing” a CAS-covered contract. We interpret this phrase to mean the period between contract award and the point when the contract is physically complete. This may be earlier than the time of final payment on the contract.

The end of contract performance is the point when it is considered that all direct costs have been charged to the contract since all work will have been completed, and any further accounting transactions would be the result of adjustments not directly related to contract performance.







### Question #4

**Question:**

I am auditing a competitive FFP proposal. The contractor submitted information other than cost or pricing data.

Is the contract subject to CAS?


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**Question:**

**I am auditing a competitive FFP proposal. The contractor submitted information other than cost or pricing data. Is the contract subject to CAS?**

**Answer:**

No. The contract meets the requirements of the new 9903.201-1(b)(15) exemption (i.e., FFP contract based on adequate price competition with no cost or pricing data submitted).



### Question #5

**Question:**

I am auditing a FFP proposal. No cost data of any kind is submitted. It does not meet the FAR 15.403-1(c) definition of adequate price competition.

Is the contract subject to CAS?

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**Question:**

**I am auditing a FFP proposal. No cost data of any kind is submitted. It does not meet the FAR 15.403-1(c) definition of adequate price competition. Is the contract subject to CAS?**

**Answer:**

Yes. It does not meet the requirements of the revised 9903.201-1(b)(15) exemption. Even though no cost or pricing data was submitted, since it was not based on adequate price competition, the exemption does not apply.

Under the previous 9903.201-1(b)(15) exemption, the contract would have been exempt from CAS.



### Question #6

**Question:**

In January 2000, any new CAS awards at Contractor C were subject to modified CAS coverage. On 2 April 2000 and after, will new awards also be subject to modified CAS coverage?

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**Question:**


**In January 2000, any new CAS awards at Contractor C were subject to modified CAS coverage. On 2 April 2000 and after, will new awards also be subject to modified CAS coverage?**

**Answer:**

It depends on whether the contractor is currently performing a CAS-covered contract of \$7.5 million or greater. If the contractor *is* performing a contract of \$7.5 million or greater, new awards would be subject to modified coverage. If not, new awards are exempt from CAS until a CAS-covered contract of at least \$7.5 million is awarded.

Of course, if the award is over \$50 million, the contract would be subject to full CAS coverage.

Under the previous rule, there was no \$7.5 million “trigger” contract.



### Question #7

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**Question:**

When does the \$7.5 million trigger take effect - immediately after the award of the trigger contract or the next year?


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**Question:**

**When does the \$7.5 million trigger take effect - immediately after the award of the trigger contract or the next year?**

**Answer:**

The trigger takes effect immediately after contract award.



## Waiver Authority

- ✓ Delegated to heads of executive agencies
- ✓ FAR 2.101 defines “executive agency” as:  
*An executive department, a military department, or any independent establishment within the meaning of 5 U.S.C. 101, 102, and 104(1), respectively, and any wholly owned Government corporation within the meaning of 31 U.S.C. 9101*

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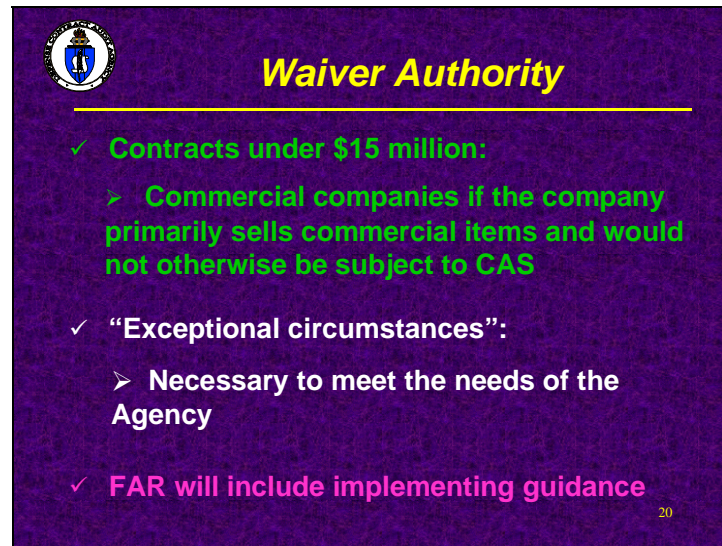
**Delegated to heads of executive agencies.**

Prior to the interim rule, only the CAS Board had the authority to waive CAS applicability (9903.201-5). Under the interim rule, this authority is given to heads of executive agencies. The CAS Board also retains the authority to waive CAS.

The head of the executive agency can delegate the authority no lower than the senior policymaking level in the executive agency.

**FAR 2.101 defines “executive agency” as:**

*An executive department, a military department, or any independent establishment within the meaning of 5 U.S.C. 101, 102, and 104(1), respectively, and any wholly owned Government corporation within the meaning of 31 U.S.C. 9101*



The heads of executive agencies may waive CAS under the following conditions:

**Contracts under \$15 million:**

**Commercial companies if the company primarily sells commercial items and would not otherwise be subject to CAS**

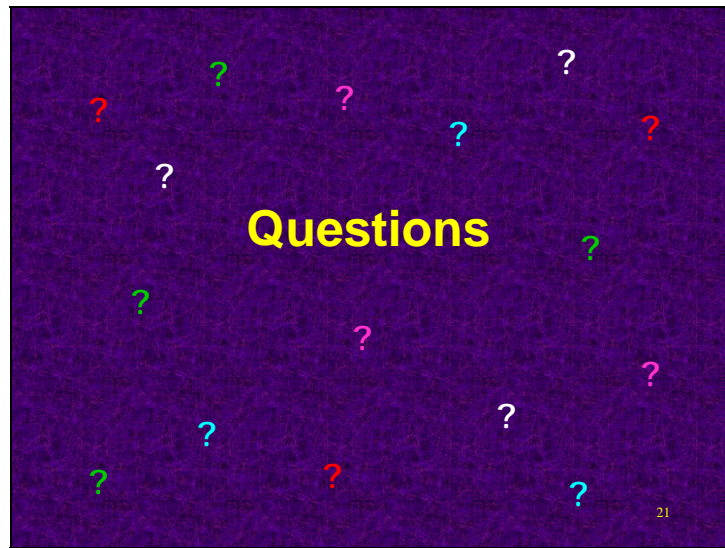
**“Exceptional circumstances”:**

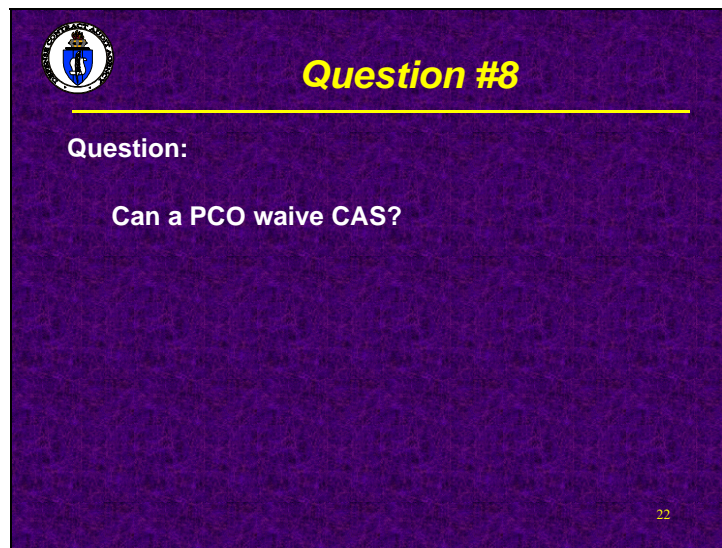
**Necessary to meet the needs of the Agency**

For example, DoD cannot get the needed products from a sole source supplier because the supplier refuses to sign a contract with CAS clauses.

**FAR will include implementing guidance**

The FAR will be modified to include instructions and guidance for implementing the waiver authority. It is also possible that individual agency supplements to the FAR will be modified to include instructions on delegation authority and other implementing procedures.






**Question:**  
**Can a PCO waive CAS?**

**Answer:**  
No. The head of an executive agency can delegate CAS waiver authority no lower than the senior policymaking level in the executive agency. This does not include PCOs.





### Question #9

**Question:**

Since executive agencies can now waive CAS, what happens to the CAS Board's authority to waive CAS?

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**Question:**

Since executive agencies can now waive CAS, what happens to the CAS Board's authority to waive CAS?

**Answer:**

Nothing. The CAS Board retains its previous authority to waive CAS applicability (9903.201-5).

Heads of executive agencies are only authorized to waive CAS on individual contracts. Only the CAS Board can authorize a waiver that affects all contracts (both old and new).



## **Implementation**

- ✓ **Legislation includes “phase in” language**
  - **Assumes new criteria have been in effect**
  - **If a contractor is not performing a CAS-covered contract of \$7.5 million or greater, new awards are exempt from CAS until the contractor receives a new CAS-covered award of at least \$7.5 million**
  - **If CAS-covered awards in the preceding year are \$50 million or greater, new CAS awards will be subject to full CAS coverage**

So how will these changes be implemented?

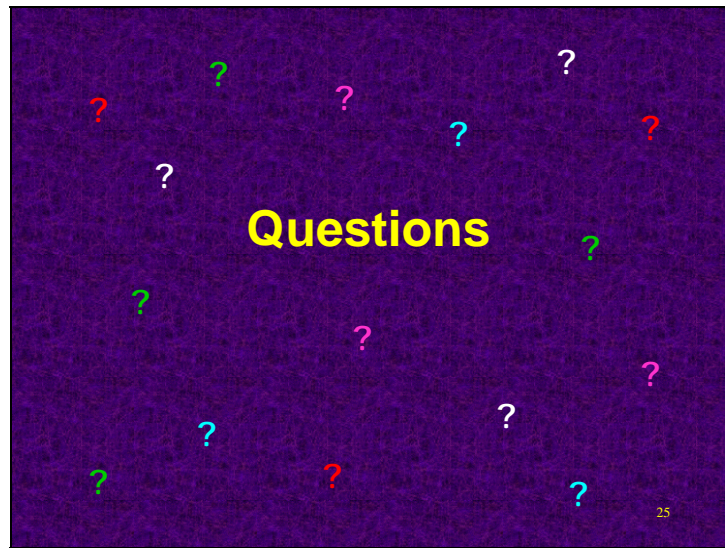
**Legislation includes “phase in” language.  
Assumes new criteria have been in effect.**

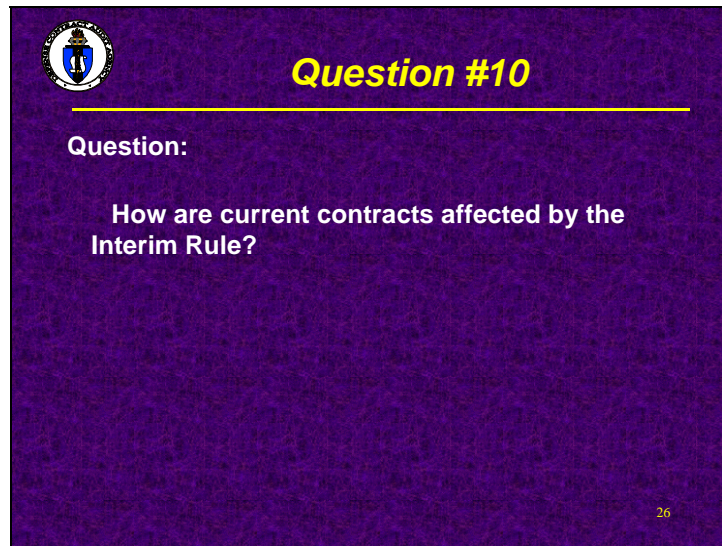
The legislation upon which the interim rule is based includes phase in language. As of 2 April 2000 (the effective date for the interim rule), one applies the new criteria to all new awards.

**If a contractor is not performing a CAS-covered contract of \$7.5 million or greater, new awards are exempt from CAS until the contractor receives a new CAS-covered award of at least \$7.5 million.**

The CAS Board implemented the “phase in” provision of the legislation by exempting new awards from CAS if a contractor is not performing a CAS-covered contract of \$7.5 million or more.

**If CAS-covered awards in the preceding year are \$50 million or greater, new CAS awards will be subject to full CAS coverage.**






**Question:**

**How are current contracts affected by the Interim Rule?**

**Answer:**

There is no affect on current contracts. If a contract currently is subject to full CAS coverage, it remains subject to full CAS coverage. If a contract currently is subject to modified CAS coverage, it remains subject to modified CAS coverage.

The CAS clause in the contract prior to the effective date of the interim rule remains in the contract; thus, CAS coverage does not change for the contract.



### **Question #11**

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**Question:**

**Does this mean that after 2 April 2000, a contractor might have a mixture of contracts at one time that are fully CAS-covered, modified CAS-covered, and not CAS-covered?**

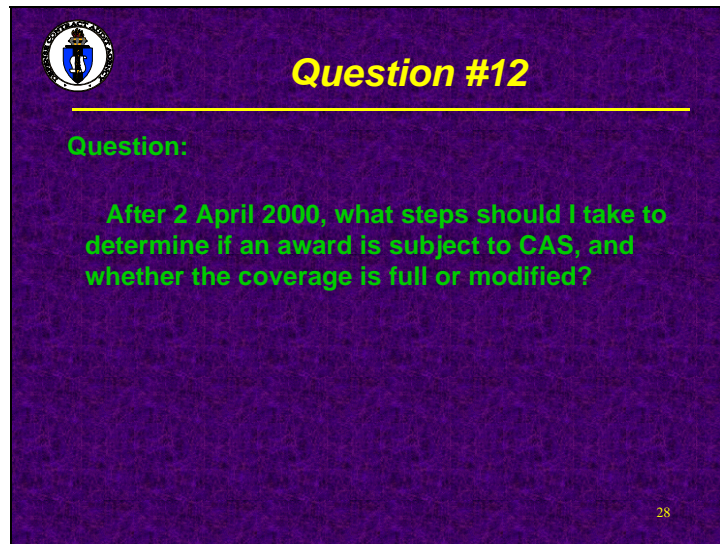
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**Question:**

**Does this mean that after 2 April 2000, a contractor might have a mixture of contracts at one time that are fully CAS-covered, modified CAS-covered, and not CAS-covered?**

**Answer:**

Yes.

A presentation slide with a dark blue background. In the top left corner is a circular seal of the Department of Defense. The title "Question #12" is written in yellow text. Below the title, the word "Question:" is in green. The main text of the question is in green and asks about steps to determine CAS coverage after April 2000. A small number "28" is in the bottom right corner.

 **Question #12**

**Question:**

**After 2 April 2000, what steps should I take to determine if an award is subject to CAS, and whether the coverage is full or modified?**

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**Question:**

**After 2 April 2000, what steps should I take to determine if an award is subject to CAS, and whether the coverage is full or modified?**

**Answer:**

1. Determine if the new award meets any of the exemption criteria under 9903.201-1(b). This includes the exemptions that existed prior to the interim rule, plus the revised exemption at 9903.201-1(b)(15) (FFP contracts based on adequate price competition) and the new exemption at 9903.201-1(b)(7) (\$7.5 million “trigger” contract). If exempt, CAS does not apply.
2. Determine if the new award is greater than \$7.5 million. If yes, it is subject to CAS.
3. If the new award is less than \$7.5 million, determine if the contractor is currently performing any CAS-covered contract or subcontract greater than \$7.5 million. If the auditor is unsure whether the contractor is currently performing a CAS-covered contract of \$7.5 million or greater, the auditor should query the contractor directly to find out. If the contractor is performing such a contract, the new award is subject to CAS. If not, it is exempt from CAS.
4. If the contract is subject to CAS, determine if net CAS-covered awards in the immediately preceding cost accounting period were \$50 million or greater. If the auditor is unsure whether the contractor received \$50 million or more of net CAS-covered awards in the preceding cost accounting period, the auditor should query the contractor directly to find out. If the contractor did receive \$50 million or more in awards in the preceding cost accounting period (or if this award is \$50 million or greater), the award is subject to full CAS coverage. If not, it is subject to modified CAS coverage.

## HANDOUT

### **Answers to Frequently Asked Questions CAS Board Interim Rule Applicability, Thresholds and Waiver of CAS Coverage**

1. Contractor A had \$64 million in CAS-covered awards in FY 1999. None of these awards was over \$1 million. In FY 2000, are CAS-covered awards subject to full or modified CAS coverage?

*Answer: New CAS-covered awards are subject to full coverage since the contractor received over \$50 million in CAS-covered awards in the preceding cost accounting period.*

*It does not matter whether any of the \$50 million in awards exceeded \$1 million. This former requirement for full coverage is eliminated in the interim rule.*

2. Contractor B had \$52 million in CAS-covered awards in FY 1999. In FY 2000, the contractor received \$48 million in CAS-covered awards. Are new CAS awards in FY 2001 subject to full or modified CAS coverage?

*Answer: New CAS awards in FY 2001 would be subject to modified CAS coverage rather than full CAS coverage.*

*The requirement for full coverage is net CAS-covered awards of \$50 million or greater in the preceding cost accounting period. For the year preceding FY 2001, the contractor did not receive CAS-covered awards more than \$50 million. Therefore, new CAS awards are subject to modified rather than full coverage.*

3. After contract award, how does an auditor determine whether a contract is CAS-covered and the type of coverage (full or modified)?

*Answer: The auditor must determine if the CAS clause is in the contract, and which CAS clause is included.*

*If there is no CAS clause, it is generally not CAS-covered. However, if the clause should have been included and for some reason was not (i.e., CAS should apply but for some reason the clause was not included), CAS would still apply. In this case, it doesn't matter that the clause is not in the contract. This is commonly called the "Christian doctrine."*

*FAR 52.230-2, Cost Accounting Standards, is the clause for full CAS coverage.*

*FAR 52.230-3, Disclosure and Consistency of Cost Accounting Practices, is the clause for modified CAS coverage.*

ENCLOSURE 2

4. I am auditing a competitive FFP proposal. The contractor submitted information other than cost or pricing data. Is the contract subject to CAS?

*Answer: No. The contract meets the requirements of the new 9903.201-1(b)(15) exemption (i.e., FFP contract based on adequate price competition with no cost or pricing data submitted).*

5. I am auditing a FFP proposal. No cost data of any kind is submitted. It does not meet the FAR 15.403-1(c) definition of adequate price competition. Is the contract subject to CAS?

*Answer: Yes. It does not meet the requirements of the revised 9903.201-1(b)(15) exemption. Even though no cost or pricing data was submitted, since it was not based on adequate price competition, the exemption does not apply.*

*Under the previous 9903.201-1(b)(15) exemption, the contract would have been exempt from CAS.*

6. In January 2000, any new CAS awards at Contractor C were subject to modified CAS coverage. On 2 April 2000 and after, will new awards also be subject to modified CAS coverage?

*Answer: It depends on whether the contractor is currently performing a CAS-covered contract of \$7.5 million or greater. If the contractor is performing a contract of \$7.5 million or greater, new awards would be subject to modified coverage. If not, new awards are exempt from CAS until a CAS-covered contract of at least \$7.5 million is awarded.*

*Of course, if the award is over \$50 million, the contract would be subject to full CAS coverage.*

*Under the previous rule, there was no \$7.5 million “trigger” contract.*

7. When does the \$7.5 million trigger take effect – immediately after the award of the trigger contract or the next year?

*Answer: The trigger takes effect immediately after contract award.*

8. Can a PCO waive CAS?

*Answer: No. The head of an executive agency can delegate CAS waiver authority no lower than the senior policymaking level in the executive agency. This does not include PCOs.*

9. Since executive agencies can now waive CAS, what happens to the CAS Board’s authority to waive CAS?

*Answer: Nothing. The CAS Board retains its previous authority to waive CAS applicability (9903.201-5).*

*Heads of executive agencies are only authorized to waive CAS on individual contracts. Only the CAS Board can authorize a waiver that affects more than one contract.*



10. How are current contracts affected by the Interim Rule?

*Answer: There is no effect on current contracts. If a contract currently is subject to full CAS coverage, it remains subject to full CAS coverage. If a contract currently is subject to modified CAS coverage, it remains subject to modified CAS coverage.*

*The CAS clause in the contract prior to the effective date of the interim rule remains in the contract; thus, CAS coverage does not change for the contract.*

11. Does this mean that after 2 April 2000, a contractor might have a mixture of contracts at one time that are fully CAS-covered, modified CAS-covered, and not CAS-covered?

*Answer: Yes.*

12. After 2 April 2000, what steps should I take to determine if an award is subject to CAS, and whether the coverage is full or modified?

*Answer:*

*a. Determine if the new award meets any of the exemption criteria under 9903.201-1(b). This includes the exemptions that existed prior to the interim rule, plus the revised exemption at 9903.201-1(b)(15) (FFP contracts based on adequate price competition) and the new exemption at 9903.201-1(b)(7) (\$7.5 million “trigger” contract). If exempt, CAS does not apply.*

*b. Determine if the new award is greater than \$7.5 million. If yes, it is subject to CAS.*

*c. If the new award is less than \$7.5 million, determine if the contractor is currently performing any CAS-covered contract or subcontract greater than \$7.5 million. If the auditor is unsure whether the contractor is currently performing a CAS-covered contract of \$7.5 million or greater, the auditor should query the contractor directly to find out. If the contractor is performing such a contract, the new award is subject to CAS. If not, it is exempt from CAS.*

*d. If the contract is subject to CAS, determine if net CAS-covered awards in the immediately preceding cost accounting period were \$50 million or greater. If the auditor is unsure whether the contractor received \$50 million or more of net CAS-covered awards in the preceding cost accounting period, the auditor should query the contractor directly to find out. If the contractor did receive \$50 million or more in awards in the preceding cost accounting period (or if this award is \$50 million or greater), the award is subject to full CAS coverage. If not, it is subject to modified CAS coverage.*

## **SAMPLE LETTER FOR CONTRACTORS**

ABC Company  
123 Main Street  
Anytown, XX 12345-6789

Re: Changes to Cost Accounting Standards

Dear Sir/Madam:

As you are likely aware, the Cost Accounting Standards (CAS) Board issued an interim rule effective 2 April 2000 (65 FR 5990) that includes significant changes to the existing rule. Among other changes, the new rule now includes an exemption for contracts and subcontracts less than \$7.5 million provided a business unit is not currently performing any CAS-covered contracts greater than \$7.5 million. The new interim rule also increases the threshold for full CAS coverage and Disclosure Statement requirements from \$25 million to \$50 million.

DCAA considers risk and materiality in all its audits. One of the risk areas is CAS applicability and coverage. In order to assist us in assessing the proper risk and updating our files regarding your CAS coverage, we ask that you provide the following information:

- Are you currently performing a CAS-covered contract of \$7.5 million or greater?
- In the immediately preceding cost accounting period, does the value of net CAS-covered awards at your company for all segments exceed \$50 million?
- In the immediately preceding cost accounting period, does the value of net CAS-covered awards at your business unit exceed \$50 million?

We appreciate your prompt response to this. Any questions may be address to Ms. Sharp Auditor at (123) 456-7890, or via e-mail at [sharp.auditor@dcaa.mil](mailto:sharp.auditor@dcaa.mil).

SMART MANAGER  
Branch Manager

ENCLOSURE 3